# Fulton Schools Middleton, Michigan

# FINANCIAL STATEMENTS

# Middleton, Michigan

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# TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-x
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements: Statement of Net Assets Statement of Activities	1 2
Fund Financial Statements: Governmental Funds Balance Sheet Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities	3 4 5
Fiduciary Fund: Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	23-24
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	25-26
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	27-28
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29

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#### INDEPENDENT AUDITOR'S REPORT

To the Board of Education Fulton Schools Middleton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fulton Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006 on our consideration of Fulton Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as noted in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

atroham! Keffy, P.C.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

August 30, 2006

This section of Fulton Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, has presented its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Fulton Schools' management's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

#### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Fulton Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually; the Special Revenue Funds, Debt Service Funds, and Capital Project Fund collectively as other nonmajor governmental funds. The remaining statement, (the statement of fiduciary net assets), presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

#### **District-Wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

#### **Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, Permanent Funds, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### **Summary of Net Assets:**

The following summarizes the net assets as of June 30, 2006.

# Condensed Statement of Net Assets as of June 30, 2006 and 2005

		Governmental		(	Governmental	
			Activities		Activities	
			2006		2005	
Assets						
Current Assets		\$	3,105,845	\$	3,953,941	
Capital Assets			2,186,642		2,435,489	
	Total Assets		5,292,487		6,389,430	
Liabilities						
<b>Current Liabilities</b>			1,028,658		1,009,230	
Long-Term Liabilities			464,033		682,7 <u>01</u>	
	<b>Total Liabilities</b>		1,492,691		1,691,931	
Net Assets						
Invested in capital assets	, net of related debt		1,713,215		1,730,199	
Restricted			155,684		305,711	
Unrestricted			1,930,897		2,661,589	
	<b>Total Net Assets</b>	<u>\$</u>	3,799,796	\$_	4,697,499	

#### **Analysis of Financial Position:**

As detailed above, the district shows a positive total net asset value of \$3,799,796 for the fiscal year ended June 30, 2006. This statement has been affected by the following factors:

- A significant number of the District's capital assets are older but fortunately the debt related to the
  assets is also declining enough annually to show positive net assets invested in capital assets net of
  related debt.
- The District is able to show positive net working capital of \$2,077,187 indicating that they can meet current obligations with current assets.

#### **Results of Operations:**

For the fiscal year ended June 30, 2006 and 2005 the District-wide results of operations were:

Condensed Statement of Activities Year Ended June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program Revenues		
Charges for Service	\$ 229,370	\$ 242,052
Operating Grants	696,583	722,268
General Revenues		
Property Taxes	380,181	670,160
State School Aid - unrestricted	6,866,873	6,881,149
Investment Earnings	70,753	41,622
Special Education county allocation	332,750	324,767
Other	51,041	61,707
Total Revenues	8,627,551	8,943,725
Functions/Program Expenses:		
Instruction	5,439,077	4,870,542
Supporting services	2,750,358	2,488,290
Community services	220,329	151,737
Food service	292,690	268,001
Athletics	274,935	176,002
Other transactions	262,202	171,528
Interest on long-term debt	36,816	51,378
Unallocated depreciation	248,847	256,184
Total Expenses	9,525,254	<u>8,433,662</u>
Increase in Net Assets	\$ ( 897,703)	<b>\$</b> 510,063

#### Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$897,703. Several factors, which helped cause the decrease, are discussed in the following sections.

#### A. Governmental Fund Operating Results

The District's expenditures for governmental fund operations exceeded its revenues by \$852,259 for the fiscal year ended June 30, 2006, mainly due to the decrease in tax revenue collected for debt service Further discussion of the District's operating results is available in the section entitled "Results of 2004-2005 Operations" located on the following pages.

#### B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, district assets depreciated in the amount of \$248,847. There were no additions to capital assets during 2005-2006.

#### C. Long-Term Debt Activities

The District reduced its long-term debt obligation during 2005-2006 by making principal payments amounting to \$219,638.

#### Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets decreased by \$897,703. A few additional significant factors affecting net assets during the year are discussed below:

#### A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Fulton Schools such as: salaries and benefits for Teachers, Classroom Parapros, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures for General Fund operations exceeded revenues by \$699,069 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$2,168,566 for the 2005-2006 fiscal year.

#### **B. Debt Service Fund Operations**

The Debt Service Funds consist of the 1992 Debt and Durant Bonds Funds. The Debt Service Funds are set up to collect intergovernmental appropriations and taxes in order to satisfy annual debt payments. At June 30, 2006, the Debt Service Funds had \$165,916 in fund equity available for future bond payments. The equity amount of \$165,916, less accrued interest payable of \$10,232 is restricted for debt service on the district-wide financial statements.

The School District levies taxes to make debt payment obligations on the 1992 Debt. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations.

The District made principal payments from both the Debt Service Funds and General Fund on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Princ Bala <u>June 30</u>	nce		Principal ayments	Principal Balance ne 30, 2006
1992 Bonds Durant Bonds Installment Loans		90,000 47,683 <u>55,382</u>	\$	190,000 3,613 26,025	\$ 200,000 44,070 229,357
Total long-term bond obligations	\$ 6	93,065	<u>\$</u>	219,638	\$ 473,427

The District also had \$308,432 in accumulated sick pay for the year ended June 30, 2006. For more details on long-term debt see Note D in the financial statements.

#### C. School Service (Special Revenue) Funds

The Fulton Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program. In 2005-2006 the Food Service Fund had revenues of \$289,844 and expenditures of \$292,690. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$35,451.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. In 2005-2006 the Athletics Fund had revenues of \$276,400 and expenditures of \$274,935. The Athletics Fund generated \$63,245 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$213,155 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$1,493.

#### D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$248,847 during the fiscal year. This can be summarized as follows:

	Balance <u>June 30, 2005</u>	Net <u>Change</u>	Balance <u>June 30, 2006</u>
Capital assets	\$ 7,798,523	\$ -	\$ 7,798,523
Less: accumulated depreciation	( 5,363,034 )	( 248,847)	( 5,611,881)
Net investment in capital outlay	\$ 2,435,489	\$( 248,847)	\$ 2,186,642

In 1992, Fulton Schools' voters approved a \$1,340,000 general obligation bond issue. The proceeds from those bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities. To see more information related to capital assets see Note C in the financial statements.

#### IMPORTANT ECONOMIC FACTORS

#### A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- Student Enrollment Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count,
- c. The District's non-homestead property valuation.

#### **B. Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The Fulton Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

#### C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 1,039 students. The following summarizes fall student enrollments in the past three years:

	Student FTE	from Prior Year
2005-2006	1,039	(4)
2004-2005	1,043	14
2003-2004	1,029	2

#### D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 17.1864 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$323,311.

#### E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was .5 mills, which generated revenue of \$56,103.

#### **GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual.

#### General Fund Revenues and Other Sources - Budgetary Comparison

				Variances	
	Original	Final		Actual & Original	Actual & Final
<u>Fiscal Year</u>	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	Budget
2005-2006 2004-2005	8,101,643 7,717,118	8,150,103 8,133,595	8,205,585 8,239,912	1.3% 6.8%	.7% 1.3%

#### General Fund Expenditures and Other Uses - Budgetary Comparison

				Variances	
Fiscal Year	Original <u>Budget</u>	Final <u>Budget</u>	Actual	Actual & Original <u>Budget</u>	Actual & Final <u>Budget</u>
2005-2006 2004-2005	8,661,350 8,200,775	8,916,774 8,298,223	8,904,654 8,202,223	(2.8)% (.01)%	.1% .1%

#### Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Fulton Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

#### **General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

Total Expenditures and other uses - Original Budget	\$ 8,661,350
Total Expenditures and other uses - Final Budget	 8,916,774
Increase in Budget Expenditures and other uses	\$ 255,424

The District's actual expenditures and other uses were less than the final budget by \$12,120.

Some of the significant changes in the expenditure and other uses budget for the year include:

- Adding of extra Special Needs part-time teacher
- · Classification change in transportation salary
- · Retirement and severance payment for six employees
- Unforeseen problems with a water well & athletic track
- Higher then anticipated costs for contracted special needs transportation
- Retro-active pay once our employee contracts were settled

#### Revenue and other sources Change from Original to Final Budget:

Total Revenues and other sources - Original Budget \$8,101,643

Total Revenues and other sources - Final Budget \_\_\_\_\_8,150,103

The District's final actual general fund revenues and other sources were greater than the final budget by \$55,482.

The final revenue and other sources budget reflected the following changes from the original budget.

- Higher FTE's then originally budgeted
- Foundation Grant lower than originally anticipated from the State
- Received less Adult Education money at the end of the school year
- Interest income on investments higher then originally anticipated

#### Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be slightly higher than the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

#### Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

# BASIC FINANCIAL STATEMENTS

# STATEMENT OF NET ASSETS

		overnmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	\$	1,672,073
Investments		25,094
Accounts receivable		222
Interest receivable		1,305
Due from other governmental units		1,363,088
Prepaids		20,799
Inventory		23,264
my chory		23,204
Total current assets		3,105,845
Noncurrent assets		
Capital assets not being depreciated		
Capital assets, net of		12,225
accumulated depreciation		2,174,417
accumulated depreciation		2,174,417
Total noncurrent assets		2,186,642
TOTAL ASSETS		5,292,487
LIABILITIES		
Current liabilities		
Accounts payable		21,768
Accrued payroll		425,412
Other accrued liabilities		
Due to others		245,233
		8,187
Accrued interest payable		4,219
Current portion of compensated absences		92,530
Current portion of long-term debt		231,309
Total current liabilities		1,028,658
Noncurrent liabilities		
		6.043
Accrued interest payable		6,013
Noncurrent portion of compensated absences		215,902
Noncurrent portion of long-term debt		242,118
Total noncurrent liabilities		464,033
TOTAL LIABILITIES		1,492,691
		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
NET ASSETS		
Invested in capital assets, net of related debt		1,713,215
Restricted for debt service		155,684
Unrestricted		1,930,897
TOTAL NET ASSETS	_\$	3,799,796
See accompanying notes to financial statements.		
-1-		
- 1 -		

# STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Charges for Services	Revenues Operating Grants	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Governmental activities				
Instruction	\$ 5,439,077	\$ 18,252	\$ 532,520	\$ (4,888,305)
Supporting services	2,750,358	-	22,727	(2,727,631)
Community services	220,329	-		(220,329)
Food Service	292,690	147,913	141,336	(3,441)
Athletics	274,935	63,205	-	(211,730)
Other transactions	262,202	-	_	(262,202)
Interest and fees on long-term debt	36,816	_	_	(36,816)
Unallocated depreciation	248,847	-	_	(248,847)
TOTAL GOVERNMENTAL ACTIVITIES	Investment ea	s aid - unrestricted arnings ation county alloc	\$ 696,583	(8,599,301)  380,181 6,866,873 70,753 332,750 51,041
	-	TOTAL GENERA	AL REVENUES	7,701,598
	1	EXCESS OF RE (UNDER) EXF		(897,703)
	I	Net assets, begir	nning of year	4,697,499
	ı	Net assets, end o	of year	\$ 3,799,796

# GOVERNMENTAL FUNDS BALANCE SHEET

		General	lonmajor vernmental Funds	Go	Total overnmental Funds
ASSETS Cash and cash equivalents Investments Accounts receivable Interest receivable Due from other funds Due from other governmental units Prepaids Inventories	\$	1,455,171 - 222 1,305 - 1,360,780 20,799 20,077	\$ 216,902 25,094 - - 1,732 2,308 - 3,187	\$	1,672,073 25,094 222 1,305 1,732 1,363,088 20,799 23,264
TOTAL ASSETS	\$	2,858,354	\$ 249,223	\$	3,107,577
LIABILITIES AND FUND BALANCE LIABILITIES Accounts payable Accrued payroll Other accrued liabilities Due to other funds Due to others	\$	17,411 425,412 245,233 1,732	\$ 4,357 - - - 8,187	\$	21,768 425,412 245,233 1,732 8,187
TOTAL LIABILITIES FUND BALANCE		689,788	12,544		702,332
Reserved for Inventories and prepaids Debt service Scholarships Unreserved		40,876 - -	3,187 165,916 25,094		44,063 165,916 25,094
Undesignated, reported in: General fund Special revenue funds Capital projects fund		2,127,690	 33,757 8,725		2,127,690 33,757 8,725
TOTAL FUND BALANCE		2,168,566	 236,679		2,405,245
TOTAL LIABILITIES AND FUND BALANCE	<u>\$</u>	2,858,354	\$ 249,223	\$	3,107,577

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2006

#### Total fund balance - governmental funds

2,405,245

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

re are not reported as assets in the governmental funds.

The cost of capital assets is

\$ 7,798,523 (5,611,881)

2,186,642

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Accumulated depreciation is

Long-term liabilities at year-end consist of:

Bonds and loans payable Accrued interest payable Compensated absences 473,427 10,232

308,432

Net assets of governmental activities

\$ 3,799,796

(792,091)

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

# Year Ended June 30, 2006

DEL/ENVIEW	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES Local sources State sources Federal sources	\$ 476,418 7,165,727 230,690	\$ 275,389 23,896 122,681	\$ 751,807 7,189,623 353,371
OTHER FINANCING SOURCES Transfers from other funds County special education allocation	332,750	213,155	213,155 332,750
TOTAL REVENUES AND OTHER FINANCING SOURCES	8,205,585	635,121	8,840,706
EXPENDITURES Current Instruction Supporting services Community services Food service Athletics Debt service  OTHER FINANCING USES Transfers to other funds Payments to other districts	5,428,095 2,754,848 220,329 - - 26,025 213,155 262,202	2,282 - 292,690 274,935 218,404	5,428,095 2,757,130 220,329 292,690 274,935 244,429 213,155 262,202
TOTAL EXPENDITURES AND OTHER FINANCING USES	8,904,654	788,311	9,692,965
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(699,069)	(153,190)	(852,259)
Fund balances, beginning of year	2,865,853	391,651	3,257,504
Prior period adjustments	1,782	(1,782)	-0-
Fund balances, end of year	\$ 2,168,566	\$ 236,679	\$ 2,405,245

# RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

#### Net change in fund balances - total governmental funds

(852,259)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense

(248,847)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements

219,638

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable (Increase) in compensated absences

2,116 (18,351)

(16,235)

Change in net assets of governmental activities

\$ (897,703)

# Fiduciary Fund

# STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Fund		
ASSETS	•	70.070	
Cash	\$	72,079	
LIABILITIES  Due to			
Elementary	\$	16,040	
Middle School/High School		23,936	
Athletic Boosters		7,935	
PTO		24,168	
TOTAL LIABILITIES	\$	72,079	

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fulton Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

#### 1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Fulton Schools (primary government). The District has no activities that would be classified as component units.

#### 2. Basis of Presentation

#### DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

#### **FUND FINANCIAL STATEMENTS**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

a. <u>General Fund</u> - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

# NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

#### 4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 4. Budgets and Budgetary Accounting - continued

- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 29, 2006.

#### 5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking accounts and certificates of deposits and pooled investment funds with an original maturity of 90 days or less. Cash equivalents are recorded at market value. Investments consist of stocks and certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

#### 6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

#### 7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

#### 8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. The total amount of \$1,363,088 due from other governmental units consists of \$1,333,858 and \$29,230 related to State Aid and grant and local programs, respectively.

#### 9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 9. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions 5 - 20 years
Equipment and furniture 5 - 20 years
Vehicles 8 years
Other capital equipment 5 - 20 years

The District has no assets that would be classified as infrastructure assets.

#### 10. Compensated Absences

Based on the requirements of GASB Statement No. 16, Accounting for Compensated Absences, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

#### 11. Accrued Interest Payable

Accrued interest is presented for the long-term obligations in the district-wide statements in two components: the portion of interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2008.

#### 12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

#### 13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$17.1864 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$.50 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### 14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

#### 15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year have been reported as deferred revenue.

#### 16. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

#### 17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

#### 18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

- 1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- 4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- 5. United States government or Federal agency obligation repurchase agreements.
- 6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
- 7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- 8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

#### **Deposits**

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2006, the carrying amount of the District's deposits was \$865,354 and the bank balance was \$985,059, of which \$300,000 was covered by Federal depository insurance. The balance of \$685,059 was uninsured and uncollateralized.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

#### Investments

As of June 30, 2006, the District had the following investments:

INVESTMENT TYPE	Carrying Amount	Market Value	Weighted Average <u>Maturity</u>
Uninsured and unregistered for which the securities are held by the District's agent in the District's name - Corporate Stock	\$ 15,099	\$ 15,099	N/A
Uncategorized pooled investment funds MLAFP - Cash Management Funds Edward Jones - Cash Management Account	878,798 9,995	878,798 9,995	<12 months avg. Unknown
	\$ 903,892	\$ 903,892	

#### Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investment in the uncategorized pooled investment (with Michigan Liquid Asset Fund Plus (MLAFP)) was rated AAA by Standard and Poor's. The Edward Jones Cash Management Fund was not rated.

#### Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

#### Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

#### Custodial credit risk

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investment captions in the financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	<u>Total</u>
Cash and cash equivalents Investments	\$ 1,672,073 25,094	\$ 72,079 	\$ 1,744,152 25,094
	<u>\$ 1,697,167</u>	\$ 72,079	\$ 1,769,246
	- 14 -		

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

#### **NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

Governmental activities	Balance July 1, 2005	Additions	<u>Deletions</u>	Balance June 30, 2006
Capital assets not being depreciated Land	\$ 12,225	\$ -	\$ -	\$ 12,225
Capital assets being depreciated Buildings Equipment and furniture Vehicles	4,237,972 2,343,089 1,008,712	- - -	- - -	4,237,972 2,343,089 1,008,712
Other capital equipment Subtotal of capital assets being depreciated	<u>196,525</u> 7,786,298	-0-	-0-	196,525 7,786,298
Less accumulated depreciation for: Buildings Equipment and furniture Vehicles Other capital equipment	(2,504,625) (1,907,557) (764,759) (186,093)	( 70,013 ) ( 106,189 ) ( 69,495 ) ( 3,150 )	- - - -	(2,574,638) (2,013,746) (834,254) (189,243)
Subtotal	(5,363,034)	( 248,847 )	-0-	<u>(5,611,881</u> )
Net capital assets being depreciated	2,423,264	( 248,847)		2,174,417
Capital assets, net	\$ 2,435,489	<u>\$(248,847</u> )	\$ -0-	<u>\$ 2,186,642</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

#### NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balaı <u>July 1,</u>		Add	<u>itions</u>	<u>D</u>	eletions	_	Balance e 30, 2006	Dι	mounts ue Within ne Year
1992 School Building and Site Bonds 1998 Durant Resolution Bonds Installment Loans Accumulated sick pay	4 25	0,000 7,683 5,382 0,081	\$	- - - 18,351	\$	190,000 3,613 26,025	\$	200,000 44,070 229,357 308,432	\$	200,000 3,784 27,525 92,530
	\$ 98	<u>3,146</u>	\$	<u>18,351</u>	<u>\$</u>	219,638	\$	781,859	\$	323,839

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

# NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

<u>General Obligation Bonds</u> - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2006:

\$1,340,000 1992 School Building and Site General Obligation Bonds dated December 14, 1992, due May 1, 2007 with interest of 5.80 percent, payable semi-annually.	\$ 200,000
Resolution Bonds	
\$74,637 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$3,784 to \$17,444, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	\$ 44,07 <u>0</u>
Installment Loans	
\$34,375 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$1,150 to \$1,655 through May 15, 2013 with interest at 5.68 percent, payable semi-annually.	\$ 19,444
\$236,268 Installment Purchase Agreement dated July 16, 1998 due in semi-annual installments ranging from \$7,906 to \$11,378 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.	133,631
\$24,275 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$835 to \$1,201 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.	14,108
\$17,380 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$598 to \$860 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.	10,101
\$58,600 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$2,015 to \$2,900 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.	34,056
\$31,000 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$1,066 to \$1,534 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.	18,017
	\$ 229,357

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE D: LONG-TERM DEBT - CONTINUED

#### Annual Requirements for Bonded Debt and Installment Loans

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Voor Ending		<u>Durant Resolution Bonds</u>				General Obligation Bonds				Installment Loans		
Year Ending <u>June 30,</u>		<u>Principal</u>		Interest		<u>Principal</u>		Interest		Principal		<u>Interest</u>
2007	\$	3,784	\$	1,457	\$	200,000	\$	11,600	\$	27,525	\$	12,642
2008		17,444		7,289		-		-		29,110		11,056
2009		4,154		1,088		-		-		30,787		9,371
2010		4,351		890		-		-		32,561		7,606
2011		4,559		683		-		-		34,436		5,730
2012-2013		9,778	_	704	_		_		_	74,938	_	5,396
	<u>\$</u>	44,070	\$_	12,111	\$	200,000	\$_	11,600	\$	229,357	\$_	51,801

#### Sick Pay

In recognition of services to the District, a severance payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice as follows:

#### Teachers and Administrative Staff

Employees eligible for non-disability retirement through the Michigan Public Schools Employee Retirement System and having at least fifteen (15) years of consecutive service to the Board shall be paid a severance payment on the following schedule:

After fifteen (15) years of service, five (5) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty (20) years of service, ten (10) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, fifteen (15) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

#### Support Staff

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE D: LONG-TERM DEBT - CONTINUED

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2006 for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2006 and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the District-wide financial statements, is as follows:

	Vested <u>Employees</u>	Nonvested Employees	<u>Total</u>
Severance pay Payroll taxes	\$ 244,421 18,698		\$ 286,514 21,918
	<u>\$ 263,119</u>	\$ 45,313	\$ 308,432

#### NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to nonmajor governmental funds from: General fund

1,732

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

#### NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers from General Fund to: Nonmajor governmental funds

\$ 213,155

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPSERS for the year ended June 30, 2006 was \$4,851,469 of which \$3,319,711 was for members who have elected the MIP option; the District's total payroll was \$5,109,731.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	MIP <u>Contributions</u>	District Contributions	Total <u>Contributions</u>		
2006	\$ 129,315	\$ 779,139	\$ 908,454		
2005	123,982	672,582	796,564		
2004	120,556	586,315	706,871		

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	MIP Contributions	District Contributions				
2006	4.0 %	16.0 %				
2005	4.0	14.9				
2004	4.0	13.0				

#### NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund Reserved for inventories and prepaids	\$ 40,876
Other Nonmajor Governmental Funds Inventories Scholarships Debt Service	\$ 3,187 25,094 165,916
	<u>\$ 194,197</u>

#### NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown is the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities

Restricted for debt service

\$ 155,684

#### NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the Basic financial statements, the District's budgeted expenditures in the General and Special Revenue Funds have been adopted and shown at the functional classification level.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

General Fund	Amounts <u>Appropriated</u>		Amounts Expended		<u>Variance</u>	
Supporting services Operations and maintenance Transportation	\$	873,740 720,716	\$	880,086 723,128	\$	6,346 2,412
Food Service Fund		283,340		292,690		9,350

#### NOTE K: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District is exposed to risks of loss related to the District's workers' compensation for which the District carries commercial insurance.

#### NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the <u>Durant</u> vs. <u>State of Michigan</u> case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Fulton Schools, a nonplaintiff District, was awarded \$149,274 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

#### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

# NOTE M: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balances. The effect of the operations and other affected balances for the current and prior year are as follows:

	2	2006	<u>2</u> (	<u>005</u>	<u>Description</u>
General Fund Due to other funds Revenues over (under) expenditures Fund balance - beginning	\$	- - 1,782	\$(	1,782 ) 1,782	Correct overstatement of due to other funds
Non major governmental funds Due from other funds Revenues over (under) expenditures Fund balance - beginning	\$	- - 1,782 )	\$( (	1,782 ) 1,782 )	Correct overstatement of due from other funds

REQUIRED SUPPLEMENTARY INFORMATION

# General Fund

# BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

		d Amounts		Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Local sources	\$ 375,260	\$ 469,390	Φ 476.440	¢ 7,000
State sources	+,	+	\$ 476,418	\$ 7,028
Federal sources	7,172,103 234,280	7,130,008 230,705	7,165,727 230,690	35,719
r ederal sources	234,200	230,703	230,090	(15)
OTHER FINANCING SOURCES				
County special education allocation	320,000	320,000	332,750	12,750
, ,				
TOTAL REVENUES AND OTHER				
FINANCING SOURCES	8,101,643	8,150,103	8,205,585	55,482
EXPENDITURES				
INSTRUCTION				
Basic programs	3,887,165	3,903,302	3,892,448	10,854
Added needs	740,265	776,170	774,617	1,553
Adult and continuing education	699,882	765,109	761,030	4,079
TOTAL INSTRUCTION	5,327,312	5,444,581	5,428,095	16,486
SUPPORTING SERVICES				
Student services	216,242	211,746	211,608	138
Instructional staff	160,525	156,222	156,017	205
General administration	310,741	314,262	313,940	322
School administration	493,350	419,130	418,672	458
Other business services	64,640	51,605	51,397	208
Operations and maintenance	794,836	873,740	880,086	(6,346)
Central	30,000	-	-	-0-
Transportation	620,380	720,716	723,128	(2,412)
TOTAL SUPPORTING SERVICES	2,690,714	2,747,421	2,754,848	(7,427)
COMMUNITY SERVICES	190,594	222,010	220,329	1,681
DEBT SERVICE	24,580	26,030	26,025	5

# General Fund

# **BUDGETARY COMPARISON SCHEDULE - CONTINUED**

# Year Ended June 30, 2006

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
OTHER FINANCING USES				
Transfers to other funds	\$ 207,150	\$ 213,210	\$ 213,155	\$ 55
Payments to other districts	221,000	263,522	262,202	1,320
TOTAL EXPENDITURES AND OTHER FINANCING USES	8,661,350	8,916,774	8,904,654	12,120
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES				
AND OTHER FINANCING USES	(559,707)	(766,671)	(699,069)	67,602
Fund balance, beginning of year	2,865,853	2,865,853	2,865,853	-0-
Prior period adjustment			1,782	1,782
Fund balance, end of year	\$ 2,306,146	\$ 2,099,182	\$ 2,168,566	\$ 69,384

OTHER SUPPLEMENTARY INFORMATION

# Nonmajor Governmental Funds

# COMBINING BALANCE SHEET

	Special Rev	enue Funds	Debt Service		
400570	Food Service	Athletics	1973 Debt	1992 Debt	
ASSETS  Cash and cash equivalents	\$ 33,829	\$ 9,680	\$ -	\$ 164,668	
Investments	Ψ 33,029	φ 9,000	φ - -	φ 104,000	
Due from other governmental units	2,308	-	-	-	
Due from other funds	484	-	-	1,248	
Inventories	3,187				
TOTAL ASSETS	\$ 39,808	\$ 9,680	\$ -0-	\$ 165,916	
LIABILITIES AND FUND BALANCES LIABILITIES					
Accounts payable	\$ 4,357	\$ -	\$ -	\$ -	
Due to others		8,187			
TOTAL LIABILITIES	4,357	8,187	-0-	-0-	
FUND BALANCES Reserved for					
Inventories	3,187	-	-	-	
Debt service	-	-	-	165,916	
Scholarships Unreserved	-	-	-	-	
Undesignated, reported in					
Special revenue funds	32,264	1,493	-	-	
Capital project funds		_			
TOTAL FUND BALANCES	35,451	1,493	-0-	165,916	
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,808	\$ 9,680	\$ -0-	\$ 165,916	

			Capital Project		Permanent		
F	unds		Fund	Fund			
Dı	urant onds	General Projects		Athol Gamble Memorial Scholarship Fund			Total
\$	- - - -	\$	8,725 - - - -	\$	25,094 - - -		16,902 25,094 2,308 1,732 3,187
\$	-0-	\$	8,725	\$	25,094	\$ 2	49,223
\$	-	\$	-	\$	-	\$	4,357 8,187
	-0-		-0-		-0-		12,544
			- - -		- - 25,094	1	3,187 65,916 25,094
	- -		- 8,725		<del>-</del>		33,757 8,725
	-0-		8,725		25,094	2	36,679
\$	-0-	\$	8,725	\$	25,094		49,223

# Nonmajor Governmental Funds

# COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year ended June 30, 2006

	Special Rev	enue Funds	Debt Service		
REVENUES Local sources State sources Federal sources	Food Service \$ 148,508 18,655 122,681	Athletics \$ 63,245	1973 Debt	1992 Debt \$ 62,802	
OTHER FINANCING SOURCES Transfers from other funds		213,155			
TOTAL REVENUES AND OTHER FINANCING SOURCES	289,844	276,400	-0-	62,802	
EXPENDITURES Current Supporting services Food service Athletics Debt service	- 292,690 -	- - 274,935	- - -	- - - 190,000	
Principal retirement Interest, fiscal and other charges				23,163	
TOTAL EXPENDITURES	292,690	274,935	-0-	213,163	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(2,846)	1,465	-0-	(150,361)	
Fund balances, beginning of year	38,297	28	55,641	262,418	
Prior period adjustments			(55,641)	53,859	
Fund balances, end of year	\$ 35,451	\$ 1,493	\$ -0-	\$ 165,916	

Funds  Durant  Bonds	Capital Project Fund  General Projects	Permanent Fund Athol Gamble Memorial Scholarship Fund	Total
\$ - 5,241 -	\$ 21 	\$ 813 - -	\$ 275,389 23,896 122,681
	_		213,155
5,241	21	813	635,121
-	-	2,282	2,282
-	-	-	292,690 274,935
3,613 1,628	-	- -	193,613 24,791
5,241	-0-	2,282	788,311
-0-	21	(1,469)	(153,190)
-	8,704	26,563	391,651
			(1,782)
\$ -0-	\$ 8,725	\$ 25,094	\$ 236,679

#### Principals

Dale J. Abraham, CPA Michael T. Gaffney, CPA Steven R. Kirinovic, CPA Aaron M. Stevens, CPA Eric J. Glashouwer, CPA



3511 Coolidge Road Suite 100 East Lansing, MI 48823 (517) 351-6836 FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education Fulton Schools Middleton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to administration of the District in a separate letter dated August 30, 2006.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the administration and Board of Education of Fulton Schools and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham! Haffry, P.C.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

August 30, 2006

### Principals

Dale J. Abraham, CPA Michael T. Gaffney, CPA Steven R. Kirinovic, CPA Aaron M. Stevens, CPA Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

To the Board of Education Fulton Schools Middleton, Michigan

As you know, we have recently completed our audit of the records of Fulton Schools as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Athletic gate receipts should be supported by documentation.

During the course of our audit, we noted that athletic gate receipts are not reconciled or supported by documentation (i.e., reconciliation of ticket sales, tally sheets, etc.). This issue was noted and reported in our audit comments last year.

We suggest that the District review its policies regarding collections for admission to athletic events and implement procedures to assure that the revenue collected is reconciled to supporting documentation, that it is accurate and appropriate, and deposited intact at the bank.

2. The decentralized accounting systems should be reviewed and modified to assure adequate internal controls are in place.

Various activities of the District (i.e., PTO, Athletic Boosters, etc.) operate accounting systems from the Central Business office. Summarized financial information is accumulated on these activities and recorded periodically in the centralized accounting system. Similar issues were noted and reported in our audit comments last year.

During our analysis and testing of the internal control structure related to these decentralized accounting systems we noted the following areas that we feel could be improved:

a. <u>Athletic Booster activities</u> - During our testing of the receipt and disbursement process, it was noted that several receipts did not have supporting documentation present for audit purposes.

We suggest that receipts for all incoming funds be retained for audit purposes.

b. <u>PTO activities</u> - During our testing of the receipt and disbursement processes, it was noted that receipts and disbursement did not have supporting documentation present for audit purposes.

We suggest that all supporting documentation relating to this activity be retained for audit purposes.

#### 3. Certain aspects of the Permanent Fund should be evaluated.

During our analysis of the permanent fund, we noted that some of the investments in the fund as of June 30, 2006 included corporate stocks and bonds which do not appear to be in compliance with Michigan Compiled Law. We also noted that no formal trust agreement could be located related to the establishment of this fund. These issues were noted and reported in our audit comments last year.

We suggest the District assure in the future that all investment companies are aware of State statutes and District policies prior to authorizing purchases of investments. In addition, the District should work to get these funds reinvested into investments which are in compliance with Michigan Compiled Law. The District should also continue to try to locate the original trust agreement that was in place when this fund was established and have it available for audit purposes.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated August 30, 2006.

This report is intended solely for the information and use of the administration of Fulton Schools and is not intended to be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham ! Kaffry, P.C.

ABRAHAM & GAFFNEY, P.C. Certified Public Accountants

August 30, 2006